

## Message Text

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PAGE 01 KABUL 00609 270444Z

14

ACTION NEA-10

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USDOC WASHDC

INFO AMEMBASSY MANILA

AMEMBASSY TEHRAN

AMCONSUL SYDNEY

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E.O. 11652: N/A

TAGS: BEXP, AF

SUBJ: KANDAHAR CEMENT PROJECT

REF (A) 75 KABUL 8414 (NOTAL) (B) KABUL 0481 (NOTAL)

(C) KABUL 0484 (NOTAL)

1. SUMMARY. GOVERNMENT OF AFGHANISTAN (GOA) DECISION TO AWARD SUBJECT PROJECT TO CZECHS (REF A) HAS EVIDENTLY BEEN REVERSED, AND TWO U.S. FIRMS ARE APPARENTLY STILL STRONGLY IN THE RUNNING FOR PART, OR ALL, OF PROJECT. FULLER CO., EQUIPMENT MANUFACTURERS, SUBMITTED VERY COMPETITIVE EQUIPMENT BID AND WERE ASKED TO SUBMIT NEW BID ON TOTAL TURNKEY PACKAGE, KAISER ENGINEERS SUBMITTED BID ON SUPERVISORY AND OPERATIONAL ASSISTANCE AND HAVE BEEN ASKED TO BID ON OTHER PARTS OF PROJECT. END SUMMARY.

2. ON JANUARY 18, JESSE TAYLOR, VICE PRESIDENT, KAISER ENGINEERS INTERNATIONAL, FROM AUSTRALIA, ARRIVED KABUL TO SUBMIT ON SUPERVISORY AND OPERATIONAL ASSISTANCE TO GOA FOR KANDAHAR CEMENT PROJECT. GOA HAD MADE IT CLEAR THAT THEY WERE NOT INTERESTED IN KAISER APPROACH TO TURNKEY PROJECT, BUT HAD ASKED KAISER TO MAKE OFFER TO PROVIDE ONE MAN FOR BID EVALUATION, CONTRACT NEGOTIATION, AND PROJECT ORGANIZATION;

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PAGE 02 KABUL 00609 270444Z

ONE MAN TO ACT AS "OWNER'S REPRESENTATIVE" FOR PERIOD OF

CONSTRUCTION; AND A SIX MAN TEAM TO OPERATE FACTORY AND TRAIN AFGHAN PERSONNEL DURING FIRST YEAR OF PLANT OPERATION. KAISER SUBMITTED BID IN AREA OF TWO MILLION DOLLARS PLUS IN-COUNTRY EXPENSES, AND M. HASHEM TOUFIQUI, PRESIDENT OF INDUSTRIES, MINISTRY OF MINES AND INDUSTRIES, APPEARED EAGER TO SIGN AT THAT FIGURE. ACCORDING TO TOUFIQUI, CZECHS HAD UPPED THEIR PRICE ESTIMATE FOR TURNKEY PACKAGE TO ABOUT 52 MILLION DOLS, AND GOA IS NOW DETERMINED TO AWARD TO ANOTHER BIDDER, IF AN ACCEPTABLE FIGURE IS OFFERED.

TOUFIQUI WAS WAITING FOR NEW TURNKEY PROPOSALS FROM FULLER (U.S.) AND HUMBOLT (FRG). IF NEITHER TURNKEY OFFER ACCEPTABLE TOUFIQUI IS PREPARED TO "DO IT HIMSELF," SPLITTING PROJECT INTO NINE SUB-CONTRACTS SUPERVISED FROM TOUFIQUI'S OFFICE. THESE SUB-CONTRACTS WOULD BE: (1) EQUIPMENT, 20 MILLION DOLS, (2) CONSTRUCTION EQUIPMENT AND SUPPLIES, 5 MILLION DOLS; (3) LOCAL CONSTRUCTION , 5 MILLION DOLS; (4) TRANSPORTATION, 4 MILLION DOLS; (5) "CIVIL ENGINEERING," 0.3 MILLION DOLS (THIS TOUFIQUI DEFINED AS EVERYTHING NECESSARY TO SUPPLEMENT BASIC ENGINEERING AND DESIGN WORK PROVIDED BY EQUIPMENT SUPPLIER), (6) ERECTION OF EQUIPMENT, 0.2 MILLION DOLS; (7) KAISER PROPOSAL, 2 MILLION DOLS; (8) OTHER COSTS ASSOCIATED WITH IN-COUNTRY EXPENSES OF FOREIGN CONTRACTORS (E.G. KAISER), 1 MILLION DOLS; AND (9) CONTINGENCY, 0.5 MILLION DOLS -- TOTAL 38 MILLION DOLS.

2. TAYLOR FOUND PROBLEMS WITH THIS APPROACH POINTING OUT THAT TOUFIQUI DOES NOT HAVE EITHER THE MANPOWER OR SKILLS TO SUPERVISE SUCH A PROJECT, AND THAT ONE KAISER MAN WOULD NOT BE SUFFICIENT TO MANAGE. MOREOVER, SUB-CONTRACT APPROACH GIVES NO CONTROL OVER EITHER COSTS OR TIME, AND GOA WOULD LIKELY END UP WITH COST IN AREA OF 48 MILLION DOLS (BASED ON KAISER EXPERIENCE IN OTHER COUNTRIES) AND A DELAY OF TWO YEARS OR MORE. TOUFIQUI HAD RESPONDED THAT HE STILL HOPED TO RECEIVE AN ACCEPTABLE TURNKEY PROPOSAL AND WAS PREPARED TO SIGN KAISER PORPOSAL IMMEDIATELY. HE ALSO ASKED KAISER TO PREPARE BID ON "CIVIL ENGINEERING" AND FOUR ADDITIONAL STUDIES TAKEN FROM ORIGINAL KAISER BID ON PROJECT. TAYLOR TEMPORIZED, OFFERING TO SIGN 2 MILLION DOLS PORPOSAL CONTRACT PROVIDED TURNKEY APPROACH IS PURSUED HE IS ALSO PREPARING PROPOSAL ON STUDIES TOUFIQUI REQUESTED, LIMITED OFFICIAL USE

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PAGE 03 KABUL 00609 270444Z

AS WELL AS ON TEAM TO MANAGE SUB-CONTRACT APPROACH IF GOA DECIDES TO GO THAT WAY.

3. ON JANUARY 20, THE FULLER CO'S REP IN TEHRAN, EDWARD GREFF, ARRIVED KABUL WITH COMPLETE EQUIPMENT PROPOSAL IN AREA OF 22 MILLION DOLS. TOUFIQUI EXPRESSED INTEREST, BUT AGAIN, PUSHED FOR COMPLETE TURNKEY PROPOSAL. GREFF ESTIMATED COMPLETE PROPOSAL WOULD BE IN AREA 40 MILLION DOLS TO 45

MILLION DOLS, BUT INCOMPLETE STUDIES MAKE IT IMPOSSIBLE AT THIS TIME TO SAY WHETHER FIGURE WOULD BE CLOSER TO THE HIGH OR LOW END. TOUFIQUI RESPONDED THAT IF FULLER CAN SUBMIT PROPOSAL CLOSE TO 40 MILLION DOLS, GOA IS PREPARED TO SIGN CONTRACT IMMEDIATELY. GREFF HAS RETURNED TO TEHRAN AND WILL ATTEMPT TO SUBMIT COMPLETE -- OR ALMOST-COMPLETE -- PROPOSAL WITHIN A WEEK. GREFF AND TOUFIQUI ALSO DISCUSSED HERAT CEMENT PLANT, APPROXIMATELY ONE-HALF THE SIZE OF HANDAHAR. THIS WAS TO HAVE BEEN BUILT BY CZECHS UNDER CZECHS LOAN, BUT TOUFIQUI STATE 28 MILLION DOLS PRICE TAG IS TOO HIGH, AND IF FULLER CAN PROPOSE IN AREA OF 22 MILLION DOLS (OR SLIGHTLY HIGHER, SINCE COSTS WOULD NOT BE EXACTLY HALF OF COST FOR KANDAHAR), GOA WILL OBTAIN FINANCING ELSEWHERE AND AWARD BOTH PLANTS TO FULLER, THUS GAINING ADVANTAGE OF IDENTICAL MACHINERY AND PROCESSES IN BOTH PLANTS.

4. COMMENT: ACCORDING TO TAYLOR, THE FOUR STUDIES MENTIONED PARA 2 ABOVE ARE ESSENTIAL BEFORE EQUIPMENT DESIGN IS COMPLETED; E.G., ONE STUDY WILL DEFINE THE CRUSHABILITY AND FRIABILITY OF THE LIMESTONE RAW MATERIAL, THUS DEFINING THE EQUIPMENT NEEDED TO PROCESS IT. THIS, PLUS AMBIVALENCE TOWARD TURNKEY OR SUB-CONTRACT APPROACH AND LAST-MINUTE INCLUSION OF A SEPARATE FACTORY IN HERAT, INDICATES GOA PLANNING AND BIDDING PROCEDURES HAVE NOT IMPROVED SIGNIFICANTLY. MOREOVER, DESPITE GOA APPROACH TO TURNER CONSTRUCTION CO. FOR CONSTRUCTION SERVICES ON THIS AND OTHER PROJECTS (REF C) FULLER WAS ASKED TO SUBMIT TURNKEY PROPOSAL INCLUDING CONSTRUCTION. KAISER DOES NOT WISH TO BE ASSOCIATED WITH A FIASCO, WHICH THIS COULD EASILY BECOME IF GOA DOES NOT MAKE UP ITS MIND AND PROCEED SYSTEMATICALLY. HOWEVER, IT IS APPARENT THAT THERE IS STILL A STRONG CHANCE FOR ONE OR BOTH COMPANIES TO WIN A SUBSTANTIAL CONTRACT. END COMMENT.

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PAGE 04 KABUL 00609 270444Z

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